

# Construction Industry Payment Trends

Digital solutions that boost  
profitability, efficiency and  
financial visibility



CommercePayments<sup>®</sup>





## Building a better payment system

The world depends on the construction industry to design and build the roads, buildings, power systems and other infrastructure that make our modern way of life possible. But it takes more than skilled laborers, towering cranes and advanced project management systems to make these projects successful.

Behind the scenes, construction companies operate in a financial landscape that challenges their ability to make and receive payments in a safe, timely and efficient manner. Faced with everything from staffing shortages and delayed payments to the perpetual

risk of fraud, industry members have been on the hunt for ways to improve profitability and efficiency, and mitigate fraud.

Many have found what they are seeking with [CommercePayments®](#) solutions from Commerce Bank. Our solutions to common construction industry payment challenges now form the backbone of digital back offices taking shape in construction businesses of all sizes. Companies that invest in payment system automation are leading the way.

# The construction industry's financial pain points

A construction company's profitability and success can be impacted by factors that go beyond its ability to deliver projects on time and on budget. The back offices of design and construction firms are grappling with:

**Payment delays** — It currently takes more than three months, on average, for construction businesses to collect payment on their invoices. That more than doubles the recommended 45-day threshold for Days Sales Outstanding (DSO) as advised by construction cost accountants to maintain strong cash flow and good credit management. Slow payment contributes to the rising cost of construction, with some contractors increasing their bids by up to 10% to compensate for payment delays.

**Slim margins** — Not only must construction companies wait longer to be paid, but they also profit less on every dollar they are paid because of the low margins in the industry. Finding new ways to boost income and reduce overhead expenses can make it easier to secure project financing, manage cash flow and mitigate other financial risks.

**Staffing shortages** — Labor struggles continue to strain the construction industry, and it's not just a lack of skilled tradespersons in the field. The professional staff needed to fill back-office jobs are also in short supply. Understaffed accounting departments have less time to spend checking invoices, tracking approvals and managing other accounting functions, particularly in growing companies.

**Billing/payment complexity** — The flow of information between the many parties involved in a construction project can be difficult to track. That includes billing and payment. General contractors, subcontractors and suppliers are all seeking improvements in their accounts payable (AP) and accounts receivable (AR) processes.

**Payer/employee choice** — Not every supplier can wait 90 days for payment, nor does every employee have a bank account for the direct deposit of a paycheck. That is why construction firms increasingly seek flexibility in how they make payments. The challenge is finding alternatives that do not further complicate AP and payroll processes.

**Fraud risks** — The construction industry continues to be a target for fraud. No matter how well protected a business may feel from common payment schemes, scammers will stop at nothing to take advantage of vulnerabilities in a payment system.

# All roads lead to a digital back office

A major shift is taking place in how bills are paid. And it's not just consumers who are setting their checkbooks aside. An estimated 50% of business-to-business (B2B) payments no longer involve paper.

CommercePayments® has identified four trends that explain the realities driving this migration away from paper and the digital back offices being created to accommodate it. All have important implications for the construction industry — especially participants that have so far resisted efforts to change.

## **Trend #1: Use of electronic payments is growing.**

Companies continue to move toward electronic payments. We witness it every day. Card payments, as well as Automated Clearing House (ACH) payments — electronic fund transfers made between financial institutions across the ACH network — are netting the most gains. CommercePayments® indicates that companies with annual revenues exceeding \$500 million are leading the way, but smaller companies are also realizing the benefits of digital payment systems.

## **Trend #2: Card acceptance in the B2B community is accelerating.**

Not every business is currently equipped to accept card payments, but that is changing. Thanks to virtual cards, prepaid expense cards and other innovations, the variety and number of businesses now accepting electronic payments are growing. Early adopters in the office supply and equipment industries have

been joined by those in computer, shipping and other sectors. Uptake is also increasing in construction, consulting and other industries that previously resisted paying by card. As companies realize the benefits of card payments, these numbers will continue to climb.

## **Trend #3: Automation resolves unique payment needs more easily.**

Large construction projects often require complex reimbursement and payment processes. Even smaller projects may involve dozens of subcontractors, materials suppliers and other vendors — all of whom desire payment quickly. Experience suggests that virtual cards, single-use cards and other automated payment solutions can streamline processes that formerly got clogged with invoices that required nonstandard payment methods.

## **Trend #4: Companies that automate their AP function reap multiple time- and cost-saving benefits.**

Organizations that invest in AP automation can significantly cut their cost-per-invoice. By eliminating manual tasks, automated AP processes reduce labor needs and provide greater visibility into a company's financial data, which can lead to everything from better decision-making to improved cash flow. Automation also saves physical storage costs and auditing time. The businesses with the most to gain are those that still pay most invoices using paper-based methods.

# CommercePayments® solutions for the construction industry's AP challenges

Individually or in combination, CommercePayments® solutions make it easier for construction companies to navigate today's complex financial landscape. By

increasing electronic payments and eliminating paper-based tasks, these field-tested solutions simplify payment processes and optimize working capital.

CommercePayments® AP Solutions							
	Payment Hub	Virtual Credit Card	PreferPay®	Commercial Card	Invoice Automation	Positive Pay	ACH Risk Manager
Supports DSO improvement	✓	✓	✓		✓		
Boosts revenue/profitability	✓	✓	✓		✓		
Saves staff time	✓	✓	✓	✓	✓		
Streamlines processes	✓	✓	✓	✓	✓		
Provides payer/employee choice	✓	✓	✓				
Reduces fraud risk	✓	✓	✓	✓	✓	✓	✓

## CHALLENGE:

### Processing all payments from a single portal

## SOLUTION:

### Payment Hub

Over time, a construction company may develop multiple payment systems, each with its own unique payment file syntax. CommercePayments® [Payment Hub](#) is an automated payment portal that consolidates these systems into one. We make it possible to pay all suppliers using their preferred payment method — virtual card, ACH, check or wire — from a single payment file.

The CommercePayments® team takes responsibility for enrolling suppliers into the system, working to convert check payments to electronic alternatives. When you are ready to pay invoices, you send us a

consolidated payment, which we disburse to your suppliers. Our solution maintains supplier information, uploads payment information to your accounting system, and sends a custom reconciliation file to your enterprise resource planning (ERP). You also receive a revenue share on electronic transactions.

*A comprehensive solution for construction companies that want to:*

- Consolidate multiple payment files without upgrading the entire payment network
- Transform the AP department into a revenue-generating operation
- Offer payment choice to suppliers
- Maximize efficiency and visibility while reducing fraud risks

## CHALLENGE:

### Reducing paper check usage

## SOLUTION:

### AP Virtual Credit Card

With the CommercePayments® [AP Virtual Credit Card](#), construction companies can replace paper checks while earning a revenue share on every payment. Whether you pay vendors on a regular or ad hoc basis, through your existing accounting system, or at the point of sale, our Virtual Card solution offers the flexibility needed to maximize card volume and satisfy your suppliers' unique payment needs.

*A smart choice for construction companies that want to:*

- Create a new revenue stream
- Improve operational efficiency, controls and reporting
- Maximize float time
- Cut paper usage and operating costs



## CHALLENGE:

### Sending payments quickly

## SOLUTION:

### PreferPay® B2C Payments

When a piece of heavy equipment requires emergency repairs or a supplier expects payment for materials upon delivery, contractors need to be able to respond promptly. CommercePayments® has developed a highly customizable B2C payments option referred to as [PreferPay®](#) — an online portal that lets your firm send money quickly using the encrypted payment method your supplier prefers.

Our Direct to Debit Card option makes it possible for your suppliers to receive funds on a Visa® or Mastercard® debit card within minutes. Direct deposit into a bank account and paper check payments are also available for those who don't have access to electronic banking. The PreferPay® payee portal is tailored to match your business's branding.

*Best for construction companies that want to:*

- Provide suppliers with fast access to funds
- Purchase goods and services from companies that don't follow standard billing practices
- Encrypt their payment method
- Automate payments from the initial request to final delivery



CHALLENGE:

## Simplifying travel, entertainment and purchasing expenses

SOLUTION:

### Commercial Cards

With CommercePayments® [Commercial Cards](#), construction companies can manage purchasing, travel and entertainment expenses from a single platform. Our Commercial Cards include preset controls and spending limits that let you define card use by employee, department or division. Accounts are monitored using multiple fraud-mitigation tools that look for transactions in designated restricted merchant categories and for activity that matches current fraud trends.

In addition to commercial, corporate and purchasing cards, we offer the CommercePayments® Prepaid Expense Card that allows employees to access their allocated funds, while providing you with back-office controls for loading and unloading cards, tracking purchases and setting spending limits and purchase restrictions.

*A time-saving choice for construction companies that want to:*

- Standardize employee purchasing protocols
- Increase their fraud mitigation tools
- Streamline expense management
- Simplify reimbursement

CHALLENGE:

## A disconnected invoicing process

SOLUTION:

### AP Invoice Automation

This [solution](#) makes it possible for construction businesses to digitize their invoices and integrate them into their current accounting workflow. By automating manual tasks, our invoice automation solution allows AP staff to focus on high-priority, high-value projects instead of tracking down approvals, reconciling payments and completing other monotonous, error-prone invoice handling processes.

*A great starting point for construction companies seeking to:*

- Reduce invoicing costs
- Maximize employee resources
- Increase visibility into outgoing payments
- Cut paper usage, storage costs and audit time





#### CHALLENGE:

### Reducing the risk of payment fraud

#### SOLUTION:

### Positive Pay

### ACH Risk Manager

Many fraud prevention measures are integrated into CommercePayments® [digital solutions](#). In addition, we offer tools designed to mitigate check fraud and stop unauthorized ACH transactions. With Positive Pay, you submit a daily electronic file to us with details on that day's checks. Later, when the checks are presented for payment, the Positive Pay system electronically compares the check to the information on file. Any discrepancies are flagged and reported to you via Commerce Connections®, our online cash management system, for a pay/no pay decision.

ACH Risk Manager helps safeguard against fraud by filtering or blocking unauthorized electronic transactions. You will be notified of any rejected ACH or wire transactions that do not meet your filter criteria, allowing you to check suspicious items.

*Helpful solutions for construction companies that seek to:*

- Mitigate fraud and losses
- Protect their reputation in the industry
- Meet any fraud prevention contractual requirements
- Maintain peace of mind



# Beyond payments: other ways Commerce Bank is helping construction businesses grow

Payments automation is an important step in a construction company's development and a key to its long-term success. But it is not the only way that Commerce Bank supports the industry. Our construction banking team is here to help you uncover opportunities that other banks and financial technology companies may miss. We tailor financial solutions to meet your biggest financial challenges and achieve your next milestones.

## Account and Cash Flow Management

Whether your transaction volume is high or low, we have business account options that match the way you bank.

**Cash management** — [Commerce Connections](#)®, our web-based cash management system, helps you maximize your business's cash balances while streamlining your transaction activity.

**Integrated accounts receivable** — CommercePayments® [Integrated Receivables](#) is a suite of solutions that leverage artificial intelligence to help guide decision-making across all your receivable processes. You'll be able to run order to cash as a unified business process, improving the efficiency and accuracy of cash application, billing and payment activities.

**Online payment collection** — CommercePayments® [CollectPay Online](#)® is a PCI-compliant payment platform that enables you to accept one-time, recurring or auto-pay payments by credit card, debit card or debit to a bank account. It expands

your customers' payment options while helping you maintain predictable cash flow.

**Lockbox services** — Eliminate the time employees spend handling and depositing incoming checks. With our [lockbox services](#), incoming payments are collected at a secure post office box and transported directly to us, speeding their delivery to your account and reducing DSO.

**Remote/mobile deposit** — Gain access to funds faster and improve cash flow by [depositing your checks](#) from your desktop or mobile device.

**Per diem and payroll solutions** — Our [Prepaid Expense Card](#) makes it easy to handle payments on construction sites without the headaches of cash, and our [DirectCheck card](#) acts as a low-cost payroll solution for those who are not able to receive direct deposit to a bank account.

## Lending and Financing

Our financing and lending solutions are designed for organizations of all sizes.

**Lines of credit** — Purchase inventory, pay operating expenses and more with our flexible lines of credit.

**Equipment financing** — Financing is available for heavy machinery, vehicles, technology and other construction equipment.

**Real estate loans** — In addition to funding loans, we can help you navigate the complexities of real estate acquisition and finance.

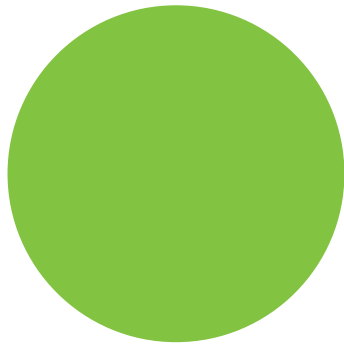
**Term loans** — With competitive rates and flexible terms, we can design a loan repayment schedule to match your cash flow.

**Employee stock ownership plans (ESOP)** — An ESOP loan makes it possible to finance the sale of a construction company to employees, creating liquidity and a success plan for owners.

# About Commerce Bank

From simple process enhancements to full-scale automation tools, CommercePayments® delivers innovative financial solutions to transform your business by streamlining payables and receivables processes. Using a consultative approach, our team of specialists takes the time to understand your organization's payments needs to identify and help implement sensible, cost-saving strategies.

With decades of service to the construction industry, we work with general contractors, subcontractors, materials suppliers and other construction-related businesses, each of which looks to us for forward-thinking solutions to their payments and other financial challenges.



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